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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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Hungary: Struggling with Economic Adjustment

Key Judgments

Budapest has addressed its serious hard currency payments problems with a gradual and measured adjustment program that relies on prudent cuts in investment and imports while protecting the consumer from a decline in living standards. The Hungarians have been able to avoid more far-reaching--and painful--austerity measures by drawing on financial assistance from the West and a special trade relationship with the USSR. Because Hungary's new economic reform program will not take hold for a number of years and financing requirements will remain high for the rest of the 1980s, Budapest needs good relations with both the West and the USSR if it is to avoid debt rescheduling and a deeper austerity program. 25X1

The adjustment program has yielded a steady but undramatic improvement in the current account position without seriously disrupting the domestic

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economy. The investment sector has borne the brunt of domestic adjustment, with cuts carefully chosen to protect growth potential. Import cuts have been modest and have not resulted in serious shortages for either industry or the consumer. The program has not, however, cut deeply enough into domestic demand or led to enough export growth to permit Hungary to put its financial problems behind it. Moreover, even though overall private consumption levels have been maintained, many workers, especially in heavy industry, have suffered a decline in living standards. 25X1

A major disappointment for the Hungarians has been their inability since 1980--despite devaluations and other export incentives--to increase hard currency earnings. Hard currency export receipts have stagnated because of unfavorable trends in world prices, Western recession, and continuing problems with the competitiveness of Hungarian products. A sharp drop would have occurred without Budapest's successful efforts to:

-- reexport to the developed West OPEC oil purchased on barter terms;

-- take advantage of its special trade relationship with Moscow to expand hard currency exports to the Soviet Union; and

-- boost sales to LDC markets of machinery and other products that do not meet Western standards through better marketing strategies and easier credit arrangements. 25X1

Budapest has expanded its sources of funds by joining the IMF and World Bank and by capitalizing on its reputation for good economic management to obtain substantial new lending from Western creditors. While bankers remain reluctant to increase lending to most East European countries, Budapest has been able to obtain substantial new credits that helped meet 1983 and 1984 financing requirements. 25X1

In contrast to the other East Europeans, the Hungarians realize that the long-run solution to their problems is economic reform aimed at improving economic efficiency, product quality, and export competitiveness. The Hungarians are committed to additional reform measures during the next three or four years--in the areas of price

and wage determination, industrial organization, enterprise management, and taxation, credit and banking policies. They are likely to move cautiously, however, because of the inevitable conflict between the short-term need to solve balance of payments problems and long-term decentralization. These reforms, therefore, are unlikely to have a significant impact on performance for at least five years. 25X1

For the next few years, therefore, Budapest will have to continue to cut investment and hold down living standards in order to meet its demanding debt servicing schedule. During this period, Hungary:

-- will remain heavily dependent on Western credits;

-- will be extremely vulnerable to growth trends in the West, world price and energy developments, and the level of international interest rates; and

-- will remain dependent on Soviet generosity at a time when Moscow is insisting on tougher trade terms and better quality exports from all the East European countries--including Hungary. 25X1

Because Budapest requires accommodation with both East and West for its economic well being, it will continue to walk a tightrope in its conduct of foreign policy. The Hungarians, anxious to protect their ties with the West from the chillier East-West climate, will try to encourage dialogue and ease tensions between the superpowers, and will attempt to maintain an active schedule of high-level visits with Western leaders and to improve relations with Western bankers and international financial institutions. They also will try to oblige the West on many foreign affairs issues when they believe they can do so without incurring Soviet wrath. 25X1

But the West cannot expect too much from Hungary in the way of direct defiance of strongly stated Soviet wishes. The Hungarian leadership not only sees Hungary as a loyal member of the Warsaw Pact, with concomitant responsibilities, but also fears losing Moscow's economic subsidies and tolerance of their reform program. Consequently, the Hungarians will respond to Soviet concern about their policies by toning down

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their rhetoric and by sharply limiting any new initiatives vis-a-vis the West. And, when the Soviets insist on a particular Hungarian action--such as joining the Soviet-led Olympic boycott--Budapest will comply.

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Introduction

The Hungarians, in our opinion, deserve their reputation as the most skillful economic and financial managers in Eastern Europe. Having anticipated the potential for trouble in the late 1970s, they began then to implement policies to try to stem the deterioration in their external trade and financial accounts. Hungary's balance of payments problems nonetheless intensified in 1981 as a result of a liquidity crisis precipitated by a pullback in bank lending to Eastern Europe, recession in the West, and Soviet oil cutbacks. 25X1

Hungary succeeded in staying afloat by tapping support and credits from Western central and commercial banks and by joining the International Monetary Fund. But the liquidity crunch necessitated prolonging domestic austerity and foreign trade adjustments while it also motivated Budapest to push ahead with reforms.[1] Although Hungary's financial problems are less serious than those of many LDC and East European debtors, Budapest's strategy in resolving them has far-reaching implications for the country's future political and economic stability, as well as its relations with the Soviet Union and the West. 25X1

This paper examines shifts in Hungarian policies and assesses where the burden of adjustment has fallen so far, the role of economic reform in the adjustment process, and the outlook for Budapest's policies and performance over the medium term. 25X1

Background

Hungary has lived with the problem of payments deficits for more than a decade. Expansionary domestic policies and unfavorable developments in world markets in the 1970s resulted in widening trade deficits, which Budapest financed by turning to readily available hard currency credits. Periodic backtracking on the economic reform program only made matters worse. The government attempted to shield both consumers and producers from inflation by increasing subsidies, while it failed to provide sufficient incentives for exports. Consumption and investment grew excessively in their sheltered environment, drawing imports into the economy at a faster rate than exports could be generated. The result was a widening of the trade deficit from $197 million in 1971 to $506 million in 1974 and $1.2 billion in 1978. Over the same period, hard currency debt rose from $1.1 billion to $7.3 billion (see Table 1 and Figure 1). 25X1

By 1978, Hungarian policymakers realized that major policy changes were needed to avert financial disaster. The regime consequently shifted priorities from rapid growth to improving

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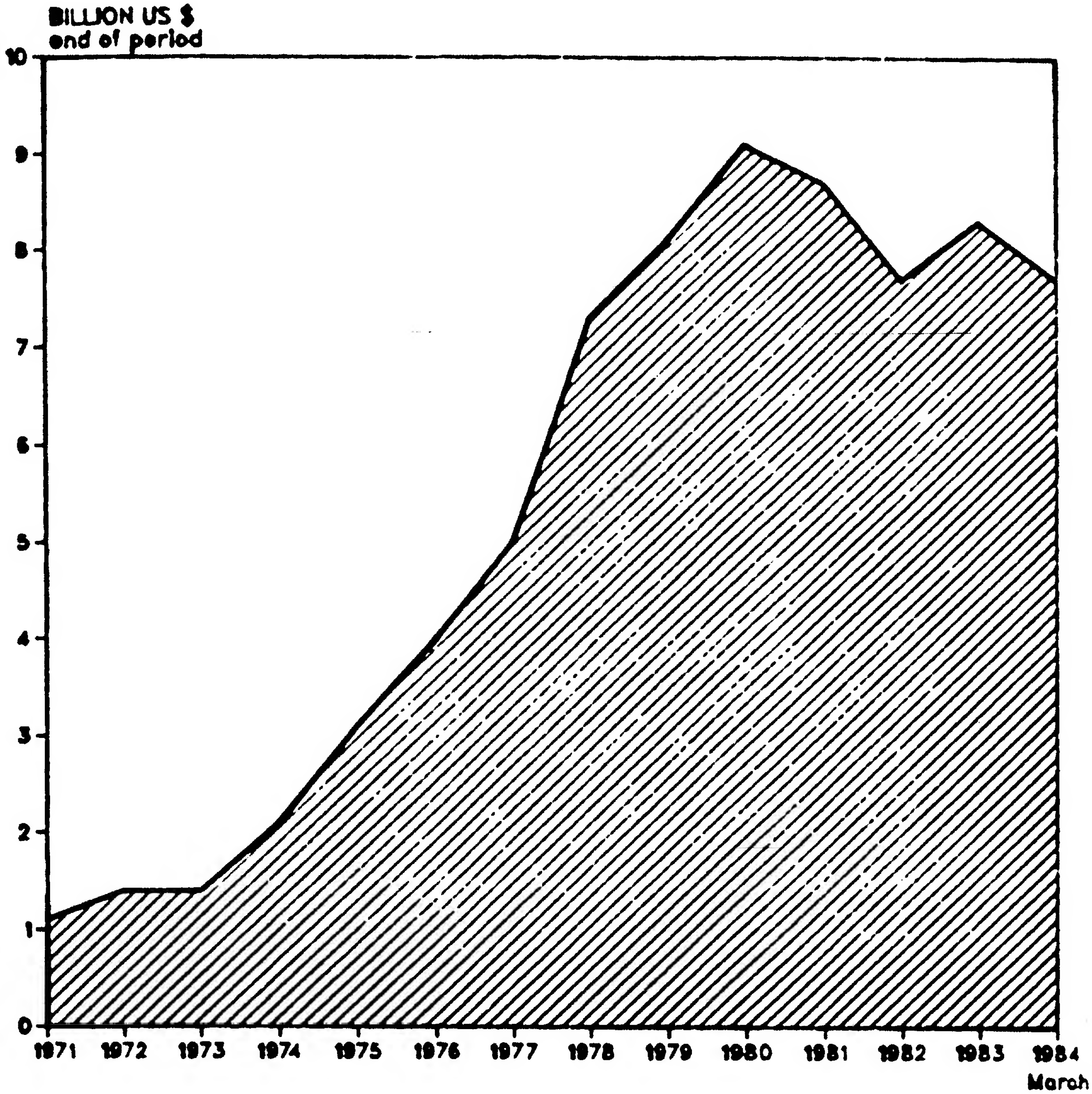
Figure 1

HUNGARY: HARD CURRENCY DEBT



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its balance of payments position, largely by boosting exports. The Hungarians also decided to place the burden of domestic adjustment on investment through more restrictive domestic credit policies, thus permitting living standards simply to level off rather than erode. At the same time, they revived the reform program in an effort to enhance economic efficiency and export competitiveness by reducing price distortions, misallocation of resources, and poor enterprise management. 25X1

Domestic Adjustment Policies

Investment Curbs

Budapest in the last five years has concentrated most of its domestic stabilization efforts on the investment sector. Official data show that gross fixed investment in real terms tapered off in 1978-79 and declined each year from 1980 to 1983 at an average annual rate of 4 percent, compared with an average annual growth rate of 7 percent from 1971 to 1977. By year-end 1983, the volume of investment was 15 percent lower than in 1978 and this year's plan calls for a further cut of almost 8 percent (see Table 2). The share of investment (including stockbuilding) in gross domestic product, meanwhile, fell from 41 percent in 1978 to roughly 26 percent in 1983, while the percentage of state budgetary expenditures going to investment plunged from 20 percent to 11 percent. 25X1

Government efforts to depress investment activity have been complicated by an inability to curb the drive to invest at the enterprise level (see Box I). In Hungary's quasi-decentralized system, the central government controls and manages only about half of total investment--mainly large projects and infrastructure--and relies on a complicated set of credit, monetary, and tax policies to influence indirectly the volume and direction of enterprise investment. From 1979 to 1981, enterprises exceeded the government's investment guidelines by finding loopholes in the tighter credit controls, drawing on unexpectedly high profits, and, in some cases, misusing depreciation and reserve funds as sources of investment. The aggressiveness of enterprises forced the government to shelve some of its own projects and to cut back drastically on housing and hospital construction in order to keep overall investment near the planned level. In 1982-83, the authorities imposed additional stiff controls on enterprise investment, including a partial freeze on the drawing down of profit funds and sharply higher requirements for loan downpayments. As a result, enterprise investment declined 3 percent in the first seven months of this year, compared with the same period last year. The problem this year has shifted to above-plan investment by the central government, which is trying to catch up on earlier delayed projects. 25X1

Hungarian planners have sought to limit the long-term damage from lower investment levels by using both credit and

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BOX I

Investment Hungarian Style

Investment decisionmaking and financing are more complex and decentralized in Hungary than in the other East European economies, making it more difficult for Budapest to accomplish its stabilization goals. The socialist sector is responsible for the bulk of investment (86 percent in 1983), divided roughly equally between central and local governments, on the one hand, and enterprises and cooperatives on the other. State investment concentrates on major industrial projects such as steel and aluminum plants, infrastructure, and raw material and energy sources, and also provides funding to local authorities for highway and hospital construction. As part of the economic reform, Hungarian firms have been given authority to invest on their own for such purposes as expanding or modernizing plants and importing machinery. Enterprise investment is funded by a combination of the firms' own resources (retained profits), state investment grants, and National Bank credits. 25X1

The central authorities wield a variety of economic instruments to help ensure that the volume and direction of investment decisions of individual enterprises are consistent with the country's macroeconomic objectives. The most important control mechanism is credit policy because enterprises rely on bank loans to finance over 20 percent of their total investment. The government also finetunes an array of "economic regulators" (mainly taxes and subsidies) to influence enterprise policies on wages, prices, depreciation, use of reserve and development funds, and other variables that affect enterprise liquidity and the level of investment. In 1984, for example, the regulators have called for a 10-percent increase in the social security contribution employers must pay for each worker, continuation of a partial freeze on use of development funds, and more flexible amortization laws. 25X1

Under the Hungarian reform, enterprises divide their after-tax profits among three funds:

<u>The Reserve Fund</u>. Enterprises must place a specified proportion (20 percent in recent years) of profits in this compulsory fund until a certain minimum is reached. In theory, the fund provides a protective shield against market shocks and cycles and can also be used under stringent guidelines to cover shortfalls in the other funds.

<u>The Development Fund</u>. The remaining profits are divided between the development fund and the sharing fund. The development fund also receives a portion of the enterprise's depreciation allowances on fixed capital,

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state investment support, and transfers of funds from other enterprises. It is intended to be the main source of enterprise investment funding.

The Sharing Fund. This money has no bearing on investment, but is used to supplement wage payments to employees.

The government has been unable in recent years to cut investment as much as it would like in large part because it has been lax in enforcing constraints on the enterprises' use of various funds, particularly the reserve fund. [redacted] 25X1 [redacted] enterprises view the reserve fund as insulation against the government's financial and economic policies. To limit such use 25X1 of the funds, Budapest this year eliminated compulsory enterprise contributions to reserve funds, but so far has apparently stopped short of imposing new controls on drawdowns. [redacted] 25X1

Despite reforms, Hungarian investment strategy still suffers from a number of problems endemic to centrally planned economies:

-- A large backlog of unfinished construction projects is tying up substantial resources. While admitting that many of these investments should have been delayed or not begun at all, policymakers and bankers are reluctant to cancel them and thus incur permanent loss of the sunk capital.

-- Budapest has also failed in its attempts to scale down excessive inventories, which put a strain on already limited resources. Wharton Econometric Forecasting Associates estimates that inventory buildup continued through 1983 and that the share of net material product used for increases in inventories grew from 2.6 percent in 1980 to 5.3 percent in 1983. Stockpiling consists partly of hoarding by enterprises of raw materials and semi-manufactured inputs in anticipation of further import cutbacks and price increases, and partly of finished but unsold products. Rigidities in prices and production, as well as inadequate interest charges on inventories, reduce the willingness--and sometimes the ability--of firms to cut output or lower prices to market equilibrium levels.

-- Many enterprises have not altered their decisionmaking processes to respond better to priorities set in Budapest because interest rates and the cost of labor are still too low and because managers lack sufficient entrepreneurial training. Moreover, the flow of capital among enterprises is extremely limited and large amounts of capital often lie idle when they could be used by other prospering firms. [redacted] 25X1

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[redacted] 25X1

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administrative controls to channel the bulk of both new domestic resources and incoming foreign capital away from inefficient and unprofitable activities, such as heavy industry projects, and into energy conservation, infrastructure, modernization, and export promotion. A large chunk of state resources--including $200 million in World Bank funding obtained in 1983 and 1984--is being used for major industrial renovation to substitute gas for oil use, increase and upgrade the quality of domestic coal production, expand domestic gas production, and complete the Paks nuclear power station. To better meet world market standards, the Hungarians are also trying to upgrade their agricultural products by expanding grain storage capacity, introducing more mechanization, and improving packaging and food processing techniques. At the same time, Budapest is using differential credit policies to encourage enterprises to expand the volume and improve the quality of their exports. 25X1

Consumer Policies

The Kadar regime faces a difficult challenge when formulating consumption policies because its popular support and political legitimacy depend on living up to a social contract based on steadily improving living standards for the population. While recognizing that consumption could not continue to grow at the comfortable levels of the early and mid-1970s, Budapest has consistently pledged at least to maintain living standards and has described this goal as second only to improving the balance of payments. Upholding its promise, the regime has not only kept real private consumption from declining, but has allowed it to grow at an average annual rate of 1 percent since 1979. Official data show that real disposable income also registered very modest growth between 1979 and 1983 (see Figure 2). It has held steady in the first half of this year, although the IMF stabilization program (see Box II) calls for a 1.5-percent drop. 25X1

Budapest has slowed real wage and income growth mainly by imposing a series of consumer price increases and, to a lesser extent, by regulating wages. In mid-1979, Budapest passed the most significant consumer price hikes in 20 years, with the largest increases--as high as 50 percent--applied to bread, household energy, and luxury consumer goods. It raised prices again in 1982--to try to counter the effects of an unexpected surge in private sector incomes; in mid-1983--in the aftermath of poor harvest results; and in early 1984--as part of its drive to reduce consumer subsidies and safeguard food exports. Annual consumer price inflation has generally ranged between 7 and 9 percent during this period, according to official statistics--and probably is at least several percentage points higher in reality. The Kadar regime often has tried to mollify the people by explaining that these increases are necessary in order to avoid the supply shortages that plague some other East European countries. 25X1

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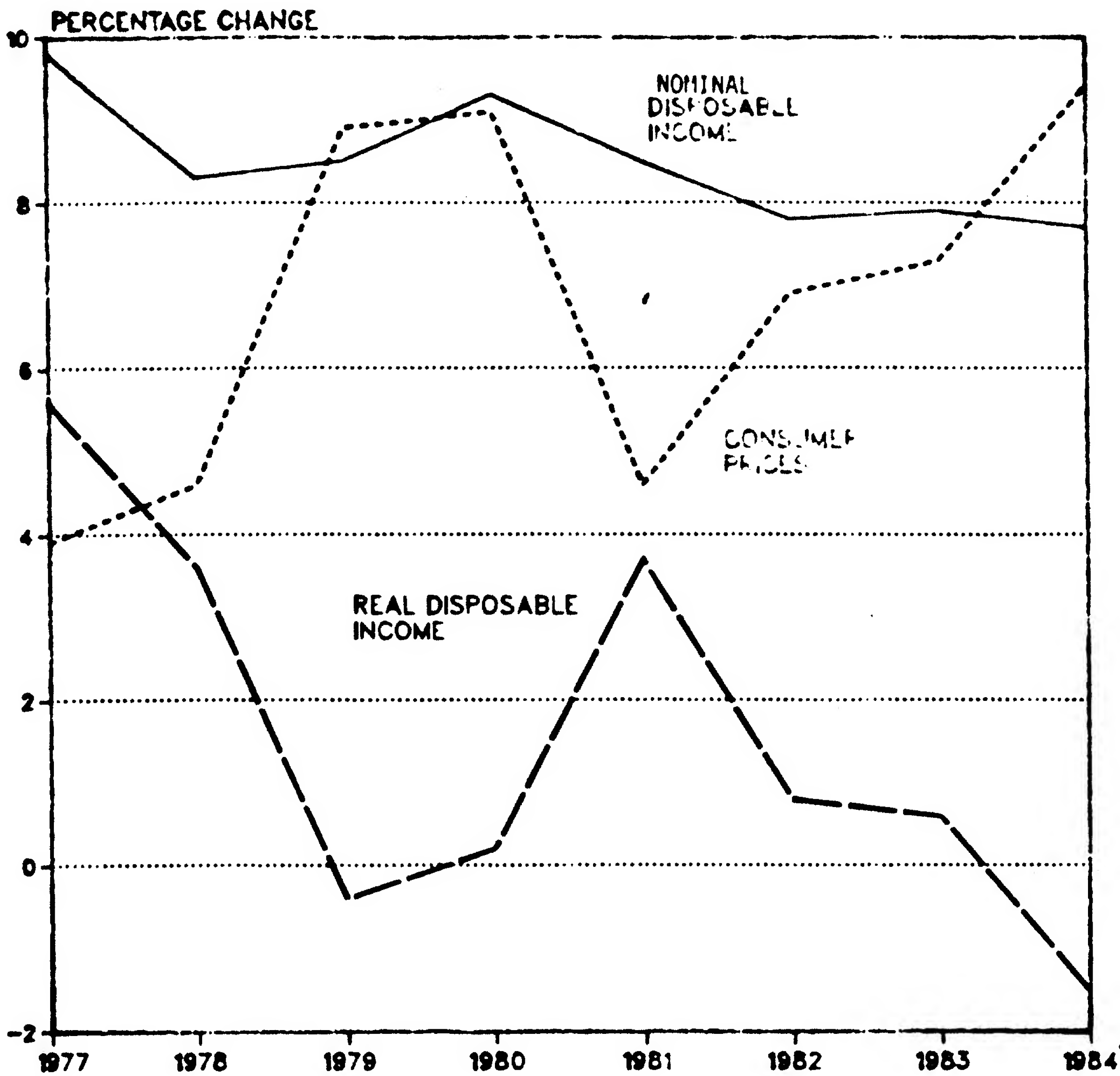
Figure 2

HUNGARY: SELECTED CONSUMPTION DATA



1. Plan target.

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BOX II

Hungary's IMF Experience

IMF membership has afforded Budapest greater financial security by providing an independent source of funds and, at the same time, bolstering Hungary's creditworthiness in the eyes of Western bankers and businessmen. At the same time, the conditionality of IMF credits has reinforced Hungary's stabilization efforts and encouraged Budapest to move faster on economic reform. 25X1

Budapest applied for IMF membership late in 1981 when its payments position was deteriorating because of weak export performance and high interest charges on its debt. By the time it gained admittance in May 1982, Budapest had survived--with help from Western central banks and the Bank for International Settlements--the worst of a severe liquidity crisis brought on by the sudden withdrawal of over $1 billion in credits by Western, CEMA, and OPEC banks. In need of substantial new credits to meet its borrowing requirements, Hungary immediately applied for credit to the IMF, which granted a 13-month stand-by arrangement for $500 million on 8 December 1982. 25X1

The Fund's overriding priority in 1983 was to help Budapest overcome the liquidity crisis. Consequently, the terms of the agreement called for increased administrative control of demand--mainly stricter government regulation of prices and wages. Budapest met most IMF conditions, although it fell short of several key targets--the most important being a $300-million shortfall in the $600-million target for a current account surplus. A sympathetic IMF noted that excess demand in the private sector--together with buoyant enterprise investment--were both largely caused by the government's attempts to free up the economy. In effect, it recognized the inevitability of the demand management problems Hungary faces in moving from a centralized system of microeconomic-controls to a decentralized one of macroeconomic-controls. 25X1

Hungary now has a second standby agreement, which provides an additional $450 million. The objectives of this year's program are to support Hungary in a difficult transition toward more significant structural changes over the medium term. In its mid-term review of the program in July, the Fund favorably assessed Hungarian policies and results. It appears reasonably confident that Hungary can meet this year's target for a $400-million current account surplus if it will strictly enforce planned adjustment measures. The IMF team remains concerned, however, that real income growth in the legalized private sector so far this year exceeds 30 percent and could jeopardize Hungary's performance. While supportive of Budapest's

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decentralization efforts, the IMF is pressing hard for Budapest to contain the growth of incomes from private activities through increased taxation and other means. 25X1

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[redacted]

Although Budapest managed to avoid an erosion in overall private consumption levels through 1983, the leadership is concerned that state industrial workers have suffered disproportionately from the austerity program. Official Hungarian data show that from 1982 through mid-1984 the real purchasing power of a worker who derives his livelihood strictly from a wage or salary has been steadily declining. In 1983, for example, the 4.5-percent rise in wages in the socialist sector lagged behind the 7.3-percent inflation rate, while labor income from private economic activities--the second economy and agriculture--soared by 27 percent. IMF statistics indicate that the disparity has widened further in the first part of this year. Workers in heavy industry are particularly hurt because government rules permitting the leasing of work facilities and equipment to moonlighting workers tend to benefit workers in light industry and the services sector; workers in foundries or power plants have much less opportunity to supplement their incomes. [redacted] 25X1

Although the regime has tried to protect the consumer, [redacted] industrial workers and trade union leaders have opposed austerity measures. [redacted] 25X1 [redacted] trade union officials tried in vain to dissuade the regime from increasing the price of basic foodstuffs in September 1983, reportedly warning of violent worker reaction. Moreover, in a blunt public appeal last fall that may have ultimately cost him his job, Sandor Gaspar--then Director of the National Trade Union Council (SZOT)--acknowledged to a trade union meeting that the lives of many families had become more difficult as a result of excessive retail price increases by the government. In noting complaints from the rank and file that the union leaders do not satisfactorily represent their views, Gaspar also indirectly accused the party of stifling the union movement by not giving it enough independence and by forcing union leaders to endorse unpopular policies [redacted] 25X1 25X1

Slowdown in Domestic Growth

The price of adjusting to external financial constraints has been a more severe slowdown in economic growth than the leadership bargained for. Except for the very modest growth in the good agricultural years of 1980 and 1982, GNP has stagnated or declined since 1978--a marked contrast to the 3-percent average annual growth shown in the 1971-78 period. In 1984, Hungary's IMF program calls once again for zero or only slightly positive GNP growth. We estimate that industrial production stagnated from 1979-1983, reflecting reduced availability of imported capital equipment and raw materials and soft investment demand. [redacted] 25X1

Foreign Trade Strategy

Determined that they would not follow Poland, Romania, and Yugoslavia down the road to debt rescheduling, the Hungarians

[redacted] 25X1

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[redacted]

have taken a variety of steps to improve export performance and curtail imports. Through heavy emphasis on export promotion, Budapest achieved a substantial jump in hard currency exports in 1979-80 but since then has been able to do little better than hold to that level. At the same time, it has been unwilling to accept the severe austerity that would have resulted from draconian import cuts. Instead the Hungarians allowed hard currency imports to grow by 16 percent in 1979-80 and only thereafter began to prune them gradually and carefully. While managing to achieve a small hard currency surplus in recent years, the Hungarian government has relied heavily on the skills of its bankers to arrange financing to meet its debt servicing needs (see Figure 3). [redacted] 25X1

Export Incentives. The export sector has benefited from preferential treatment throughout the adjustment period. Since the late 1970s, the government has financed the full cost of approved enterprise projects devoted to export production--compared with only about 70 percent of other investments--and has rebated one-third of all interest charges to enterprises that meet export commitments. It offered further incentives in 1982 and 1983, such as exempting outstanding export loans from interest rate hikes. Credit guidelines for 1984 continue to favor investment projects with demonstrated potential for increasing hard currency earnings. [redacted] 25X1

Budapest also has adopted a more flexible exchange rate policy. [redacted] it devalued the forint against 25X1 the dollar by 11 percent during the second half of 1982 and by 14 percent in 1983. [redacted] the real effective 25X1 exchange rate for the forint (against the basket of convertible currencies to which it is pegged) depreciated by 8 percent between June 1982 and September 1983. The forint was further devalued twice in the first half of 1984 for a total of eight percent (nominal terms).

Other regime moves to help exports include:

-- continuing the decentralization of the foreign trade network by allowing more firms to trade directly rather than through foreign trade organizations; for example, by March 1984, 226 firms had exporting rights and this number is to be expanded in 1984-85;

-- granting permission for large exporting industries--the leather glove industry, for example--to set their own foreign trade prices in order to compete better on Western markets; and

-- liberalizing joint venture regulations in order to attract Western technology. [redacted] 25X1

Mixed Export Performance. Despite these policies, official trade statistics reveal that the Hungarian drive to expand

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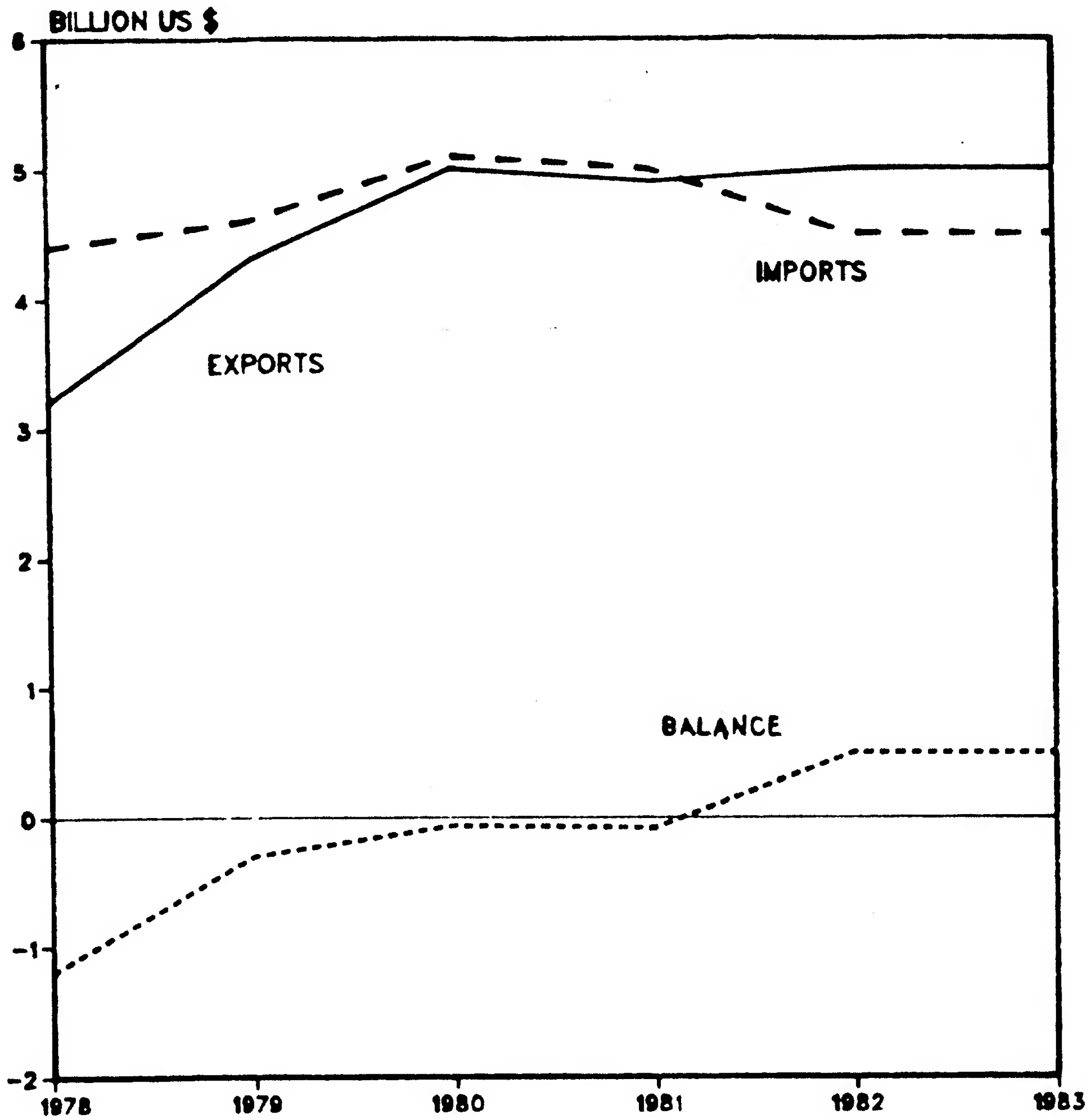
Figure 3

HUNGARY: HARD CURRENCY TRADE



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 [redacted] 25X1

exports to hard currency markets has faltered in recent years (see Table 3). Following a surge of 56 percent between 1978 and 1980, the value of hard currency exports actually fell slightly in 1981, grew only 2 percent in 1982, and stagnated in 1983. Preliminary figures for the first seven months of this year show export earnings running 3 percent below the same period last year. [redacted] 25X1

Budapest's recent poor showing is mainly due to a 7-percent decline in sales to the developed West since 1980. The Hungarians largely blame--and with some justification--forces beyond their control such as Western recession, growing protectionism in Western markets, and a serious domestic drought in 1983. They especially single out EC import restrictions on agricultural and industrial products. Foreign Trade Minister Peter Veress also recently claimed that NATO restrictions on technology sales are hurting attempts to update the country's product profile. Finally, the Hungarians point to falling world prices for their food products and raw materials, which account for over 60 percent of convertible currency sales[2] (see Table 4). [redacted] 25X1

At the same time, the Hungarians admit that many of their exports still suffer from weaknesses endemic to East European products. Economic czar Ferenc Havasi told a [redacted] committee in June 1982 that export problems result from inefficient production methods and poor quality. He pointed out that Hungarian industry uses approximately 20 to 30 percent more materials and energy than its Western counterparts to produce a unit of output and that labor productivity is only one-half or one-third of that in the West. In addition, food products--including wine, honey, and paprika--are criticized in the West for poor processing, packaging, and shipping procedures. [redacted] 25X1 25X1 25X1

Hungary's export earnings from the developed West would have declined even more dramatically if Budapest had not begun to import sizable quantities of oil from the Middle East on favorable terms, and, in turn, to reexport the oil to the developed West for hard currency. While Hungary's non-energy hard currency export earnings declined moderately in both 1982 and 1983, energy earnings surged by 51 percent in 1982 and by 43 percent last year[3] (see Tables 5 and 6). The value of these energy sales almost tripled from $275 million in 1979 (6 percent of hard currency exports) to $707 million in 1983 (14 percent of hard currency exports) (see Figures 4 and 5). [redacted] 25X1

2 For example, the volume of Hungarian exports of food exports increased 11 percent in 1982 and 3 percent in 1983, but the value of these sales leveled off in 1982 and fell 10 percent last year. [redacted] 25X1

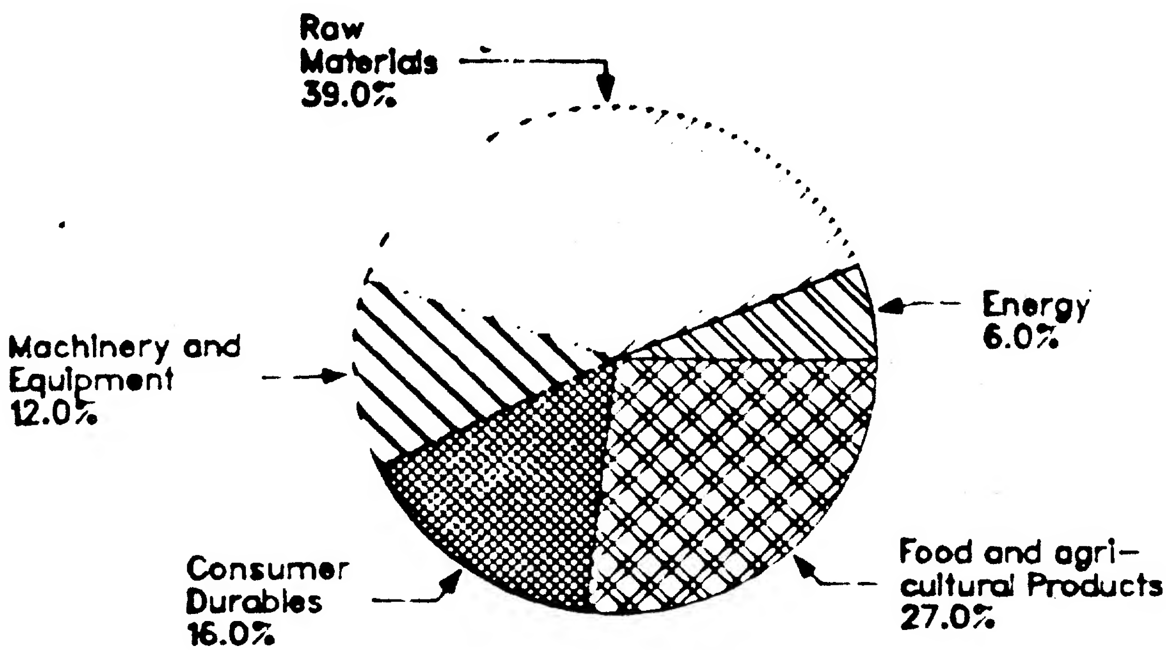
3 We believe, [redacted] that the oil sales are virtually all to the developed West. [redacted] 25X1 25X1

[redacted] 25X1

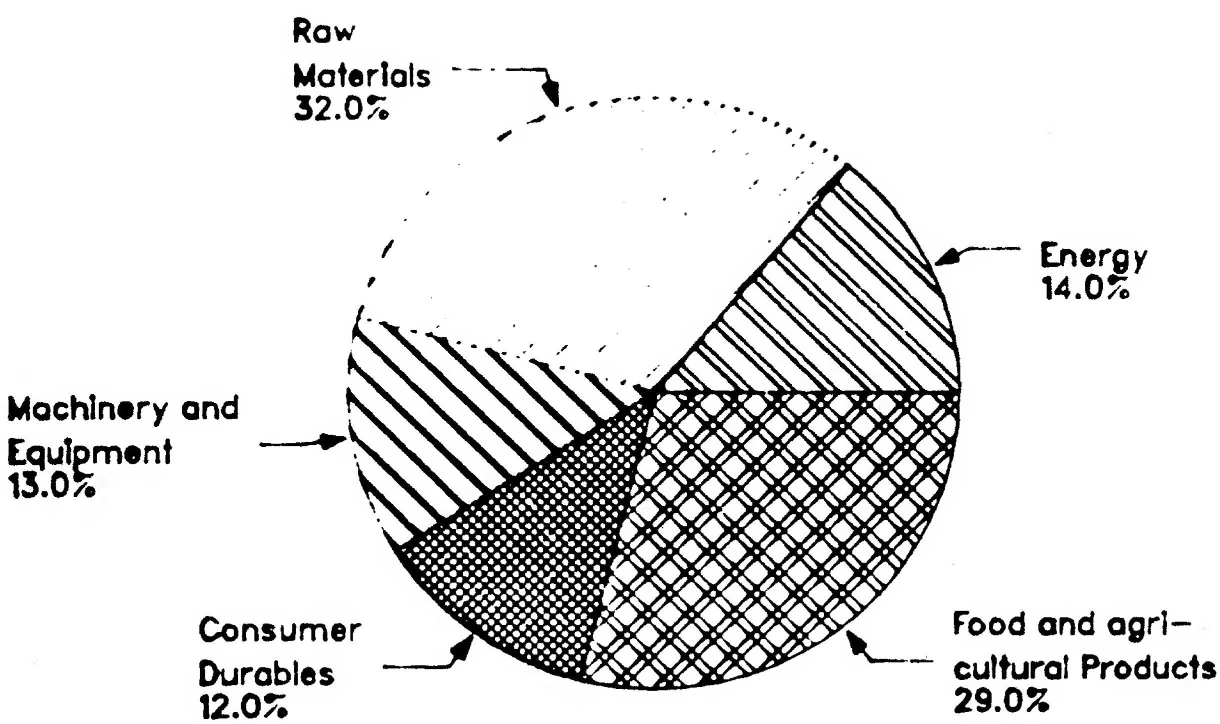
Figure 4

HUNGARY: HARD CURRENCY EXPORTS BY COMMODITY GROUP

1979



1983



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All but a small percentage of these sales consist of reexports of petroleum, some of which is directly transshipped for sale as crude oil and the rest refined in Hungary and sold as products, mainly to Western Europe. The main source of the oil is the Middle East; official trade data show that in 1982 Budapest bought roughly as much Soviet oil as in 1981, but sharply increased oil imports from Iran and bought oil from Libya for the first time. Crude oil imports increased again in 1983 and preliminary data indicate that the increase again came from Libya, with possibly small amounts from Iraq, Kuwait, and Mexico. At least part of this oil trade involves either barter arrangements--with very favorable terms for Hungary--or other attractive financing. [redacted] 25X1

In part to support these oil purchases, Hungary has pushed exports to the LDCs, which climbed by two-thirds during 1980-83. This trade raised the LDC share of Hungarian hard currency exports from 15 percent in 1979 to 22 percent in 1983, mainly at the expense of the developed West's share (see Figures 6 and 7). The Hungarians have had good success in boosting exports of machinery and transportation equipment, and probably have been able to peddle some exports that have fared poorly in developed Western markets. [redacted] 25X1

Budapest also substantially improved its hard currency trade picture by boosting hard currency exports to the USSR (see Box III and Table 7). In 1979-81, these exports--almost all agricultural goods, especially meat--increased by almost 70 percent. In 1982, without the surplus with the USSR, Hungary's overall hard currency trade would have remained in deficit instead of moving into a $461 million surplus. In 1983, the hard currency surplus with the USSR fell but still accounted for all but $100 million of Hungary's overall $537 million hard currency surplus. At the same time, since Budapest has been running large deficits in ruble trade with the USSR, the Soviets are in effect making large dollar payments for their hard currency deficit with Hungary while receiving only clearing account credits for ruble surpluses. [redacted] 25X1

[redacted] Moscow--facing its 25X1
own economic problems--is pressing Budapest to bring both hard

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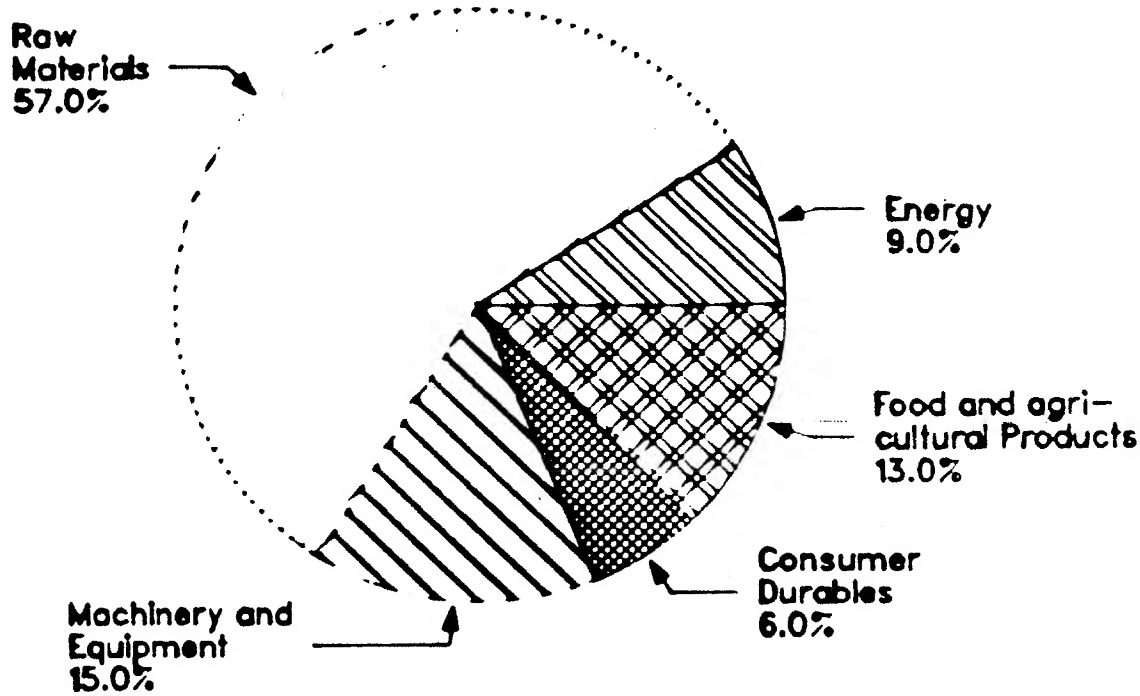
Figure 5

HUNGARY:
HARD CURRENCY IMPORTS BY COMMODITY GROUP

1979



1983

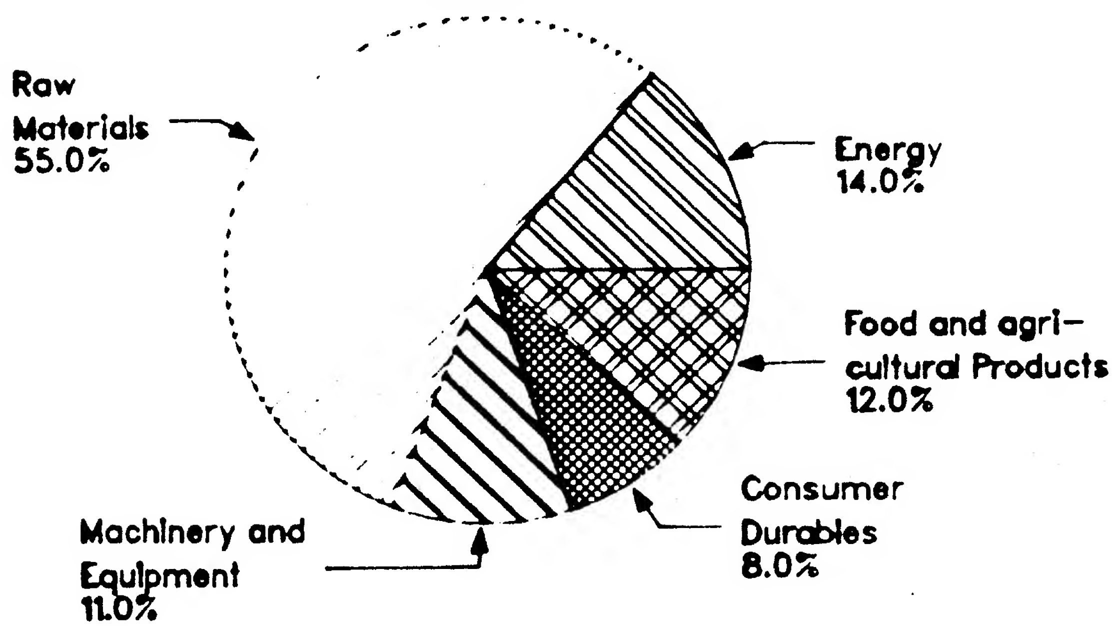


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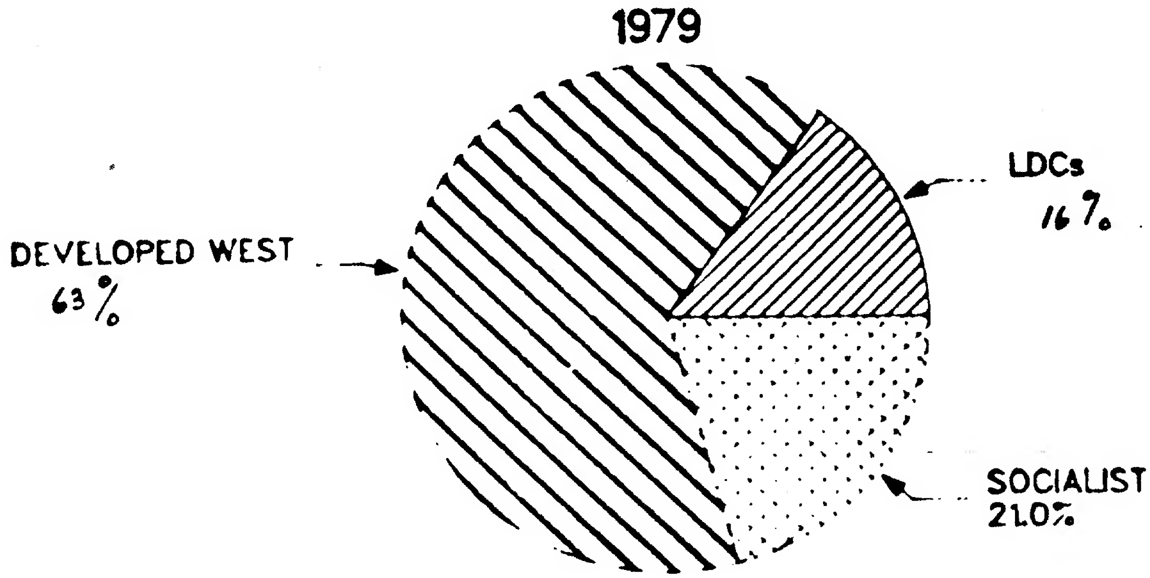
Figure 6

HUNGARY:
REGIONAL BREAKDOWN OF HARD CURRENCY EXPORTS



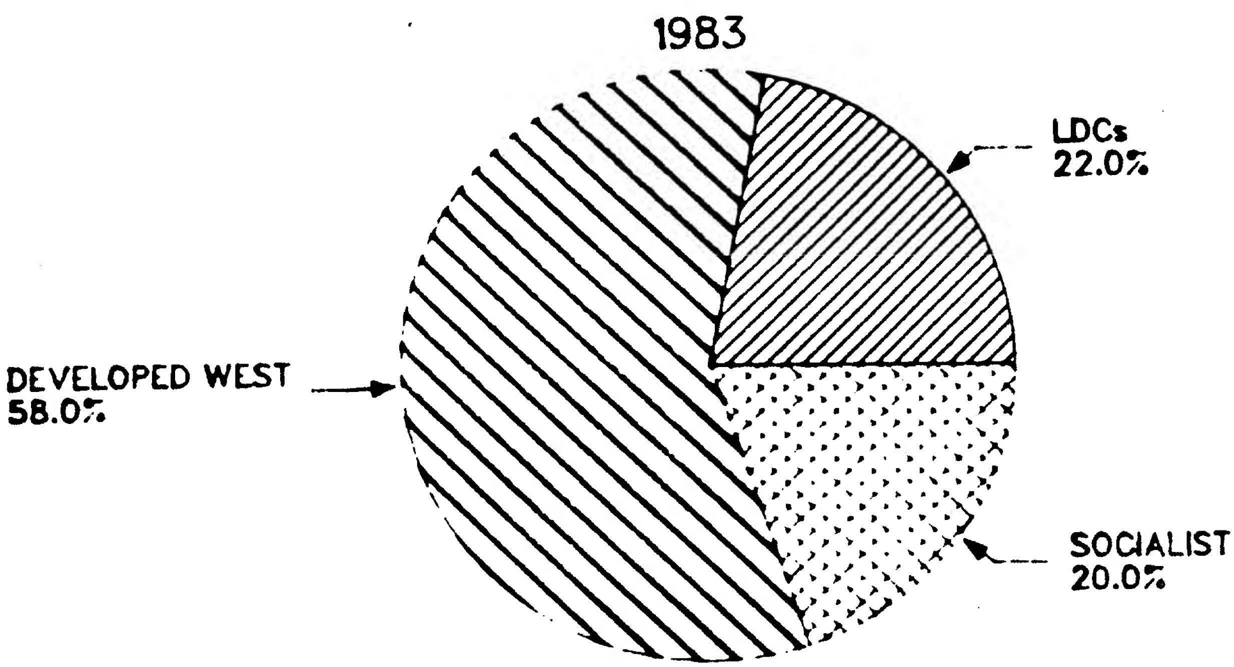


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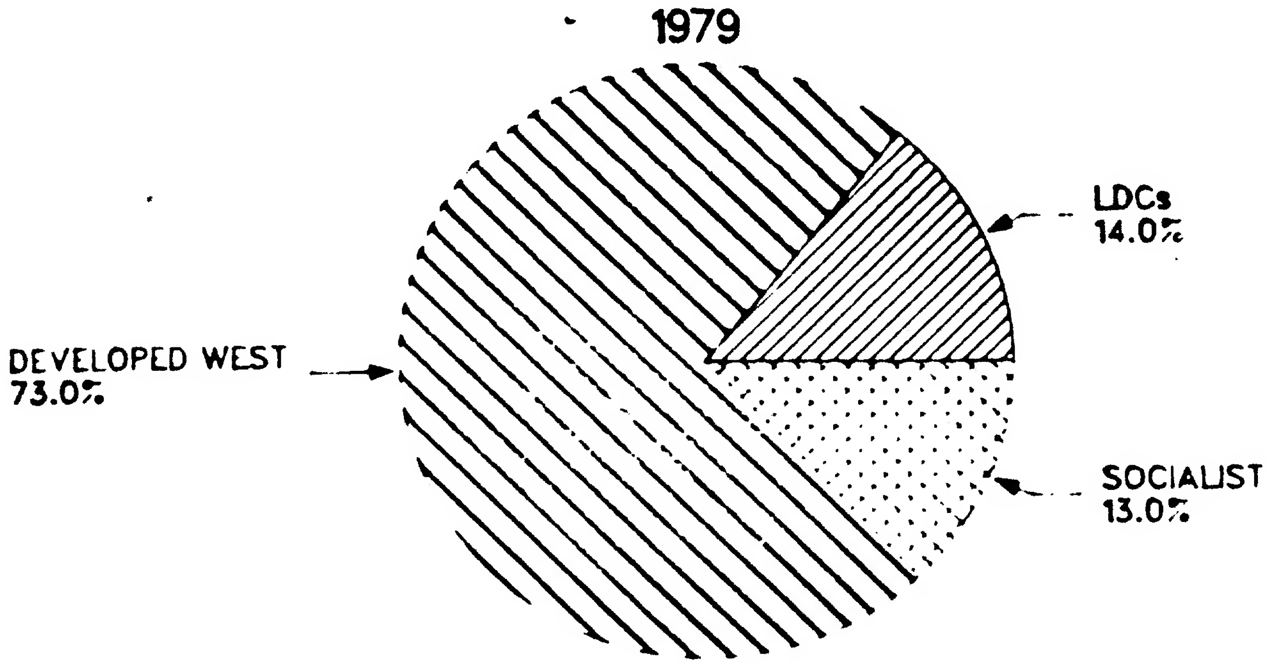
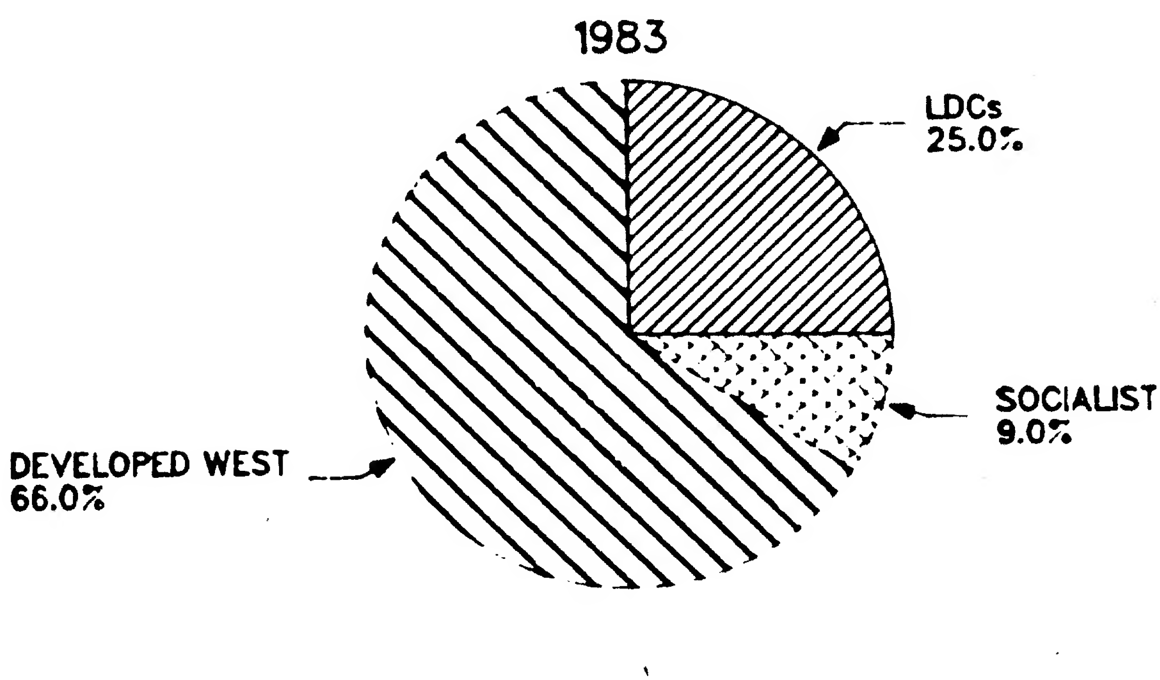
Figure 7

HUNGARY:
REGIONAL BREAKDOWN OF HARD CURRENCY IMPORTS





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BOX III

<u>Soviet-Hungarian Hard Currency Trade</u>

Hungary is unique among East European countries in that it uses hard currency in roughly 20 percent of its trade with socialist countries. It has consistently earned a surplus in these special trade transactions. This trade--primarily conducted with the Soviet Union--largely originated in 1974 when the EC imposed tight restrictions on imports of beef and cattle at a time when Hungary was investing heavily in expanding meat production capacity to increase sales to West European markets. The Soviets agreed to buy Hungarian meat for hard currency--providing Hungary a market for its increased production and permitting the USSR to raise its low level of per capita meat consumption. Even though Moscow pays world prices, it saves on transportation costs because of Hungary's proximity and on hard currency value-added costs because the sales are primarily of slaughter animals and raw meat processed in a Soviet plant near the Hungarian border. For their part, the Hungarians incur some hard currency costs--mainly imports of Western feed and meats--to produce the exports for the Soviet market, but they almost certainly benefit more than the USSR from the trade because of the losses they would suffer if they had to divert sales to saturated and quality-sensitive Western markets. 25X1

Livestock and meat sales continue to account for the bulk of Hungary's dollar exports to the USSR, but other hard currency sales contracts have been concluded for grain, textiles, wine, and dairy products. Although the Hungarians do not publish CEMA hard currency trade by either country or commodity, we estimate that about three-fifths of total agricultural sales to the USSR are for dollars. The Hungarians, in turn, have bought Soviet oil for dollars to supplement their normal allocation of soft currency purchases. 25X1

Soviet-Hungarian hard currency trade dramatically shifted in Budapest's favor in the late 1970s. The Hungarians in 1979-81, in an effort to alleviate their balance of payments problems with the West, rapidly expanded dollar sales of meat and grain to the USSR while cutting dollar purchases of Soviet oil. Hungary's hard currency surplus with the USSR consequently jumped from an estimated annual average of $123 million in 1976-78 to $422 million in 1980 and $532 million in 1981. The Soviets, at that time in a strong hard currency balance of payments position, may have encouraged this shift because they needed to supplement domestic meat supplies in the wake of poor harvests and declining meat production. The Hungarians also benefited from the Soviet decision to allow its East European partners to run ruble deficits to cushion the effect of rising prices for Soviet oil on the ruble account. Hungary's ruble trade deficit with the Soviet

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Union soared from an estimated $101 million in 1977 to $852 million in 1980. In 1978-83, these cumulative ruble trade deficits amounted to an estimated $3.2 billion, with presumably only about half of this amount offset by net services payments to the USSR, [redacted] 25X1

The Soviets in recent years, however, have become increasingly dissatisfied with the lopsided trade arrangement where they earn clearing account balances for sales to Hungary of oil and other desirable goods and pay hard currency for purchases of agricultural goods. The Soviets also are less sanguine about their own hard currency prospects and are less inclined to grant preferential economic treatment to Eastern Europe. Moscow consequently has insisted that the Hungarians cut back their annual ruble deficits and has apparently reduced the volume of its dollar purchases from Hungary since 1982. The Soviets have reduced their dollar purchases gradually, however, because of their continuing need for meat and their probable reluctance to deal a sharp blow to the Hungarian economy. Moscow also has pressured Budapest to move some dollar sales into the ruble category but the Hungarians so far have apparently resisted, probably pointing to their financial need and the hard currency import costs embodied in the sales. [redacted] 25X1

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currency and ruble trade into balance. 25X1

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Imports: Policies and Trends

Since the 1979-80 export drive faltered, the regime has placed the burden of adjustment in the hard currency trade account on imports. Budapest has followed a gradual and measured approach that first slowed the growth of imports and then actually cut imports only after the payments position worsened. While energy imports grew rapidly, import restrictions cut back the value of non-energy imports by 14 percent in 1982 and by 5 percent last year (see Table 8). Reflecting the decline in investment activity, the deepest cuts in real terms have been made in imports of capital goods and equipment. In 1983, the volume of these imports stood at 85 percent of their 1981 level and only 69 percent of their 1978 level. In contrast, the 1983 volume of imported industrial consumer goods matched the 1981 level and exceeded the 1978 level by 27 percent, illustrating the regime's reluctance to burden the population. 25X1

When the balance of payments situation worsened in 1982, Budapest turned increasingly to new administrative controls on imports. Temporary quotas on a wide range of industrial and agricultural raw materials were established and a 20-percent surcharge was imposed on imports of components and spare parts. At the same time, the government required its approval for all applications for import licenses. Since 1983 Budapest has gradually been removing these restrictions in response to IMF criticism. It has lifted most quotas on raw material imports, eliminated the surcharge on components and spare parts, and has reestablished the automatic licensing system that was in force prior to September 1982. 25X1

At the same time, Budapest has encouraged import substitution in order to cut back permanently on the need for some hard currency imports. We cannot assess the full impact of import substitution; from scattered evidence in the open press it appears that the Hungarians are 25X1 trying to develop self-sufficiency in areas where they have some

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comparative advantage.[5] 25X1

Significant Help from the West

The Hungarians' financial strategy rests on exploiting their reputation as sound and clever financial managers. Their aim is to persuade Western commercial banks and international lending institutions to supply enough credits to avert debt rescheduling and deeper, more painful austerity. In early 1982, when the pullout of over $1 billion in short-term credits by Western, OPEC, and CEMA banks resulted in a liquidity crisis, Budapest appealed for help from Western central banks and the BIS, which extended $510 million in short-term bridge loans. This show of official Western support encouraged 15 commercial banks to arrange a $260-million commercial loan for Hungary. Later in the year, having convinced the IMF that it was indeed imposing strict stabilization measures, Budapest secured $620 million in credits from the Fund, a third of which was disbursed immediately and the remainder drawn in 1983. To meet payment obligations, the Hungarians were also forced to draw down their hard currency reserves by $733 million in 1982 (see Table 9). 25X1

Despite the unfavorable lending climate for Eastern Europe in 1983, the Hungarian borrowing campaign again fared reasonably well. In addition to the $350 million still available from the IMF, Budapest obtained a $200-million three-year club loan from Western banks, $239 million in project credits from the World Bank, a $275-million commercial loan to cofinance the World Bank projects, and more trade credits. 25X1

This year Western lenders are again signaling their approval of Budapest's economic performance by responding enthusiastically to loan requests. By the end of the first quarter, Hungary had already obtained a new $450-million standby facility from the IMF and $200 million in additional World Bank project loans. In April, a consortium of US, British, Japanese, Arab, Austrian, and Finnish commercial banks responded to Budapest's bid for a $150-million credit with a $210-million loan syndication. In mid-July final arrangements were worked out on a new World Bank cofinancing package which is providing Hungary with an additional $487 million to support industrial export development and energy modernization. These loans more than cover Budapest's 1984 borrowing target of $1.1 billion. 25X1

[5] The following are examples of three projects that are completed or in the final planning stages and that have led to hard currency savings: (1) the capacity for retreading car tires has been expanded enough in the last few years to meet domestic demand and save millions of dollars each year; (2) in 1983 the chemical industry processed enough additional synthetic materials and products for the food industry to save imports worth $13 million; and (3) as of May 1984, scientists reportedly were developing an inexpensive herbicide in order to reduce dependence on imports from Western Europe. 25X1

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External Adjustment Score Card

By the end of 1983, Budapest had survived the severe liquidity crisis of the early 1980s and gained some improvement in its external financial position (see Table 10). The hard currency trade balance has moved gradually from a peak deficit of $782 million in 1978 to a surplus of $877 million in 1983,[6] while the hard currency current account has improved by $1.5 billion since 1978, registering a surplus of $297 million in 1983. This improvement reflects not only trade developments but also a strong growth in travel receipts, larger earnings from transit trade, and higher fees and earnings from professional and technical services as well as the decline in net interest payments from $1.1 billion in 1981 to $662 million in 1983. 25X1

The improvement in the current account was accompanied by a decline in repayments due on maturing debt, largely resulting from a $1.6-billion reduction in short term debt from 1981 to 1983. As Hungary's financing requirement declined from $4.8 billion in 1981 to $3.1 billion in 1983 and it was able to tap credits from the IMF and BIS, Budapest was able to reverse the erosion in its reserve position. After drawdowns of foreign exchange reserves of $1.3 billion in 1981-82, Budapest built up reserves in 1983 by $651 million to a level of $2.0 billion, or somewhat over five months of convertible imports. This strengthening in its external accounts renewed bankers' confidence in Hungary's creditworthiness and helped avoid rescheduling and even more painful austerity. 25X1

This year Budapest has become increasingly concerned that domestic demand would exceed the IMF annual targets, jeopardizing Hungary's ability to meet its external account goals. Private consumption through July was running slightly above the 1983 level, instead of falling by about 1 percent, and investment was declining at a slower pace than planned. Hungary's revised IMF program for the latter part of the year calls for:

-- additional cuts in consumer and producer price subsidies;

-- increased penalties on excess inventory accumulation;

-- increased turnover taxes on consumer goods and higher taxation of private sector incomes; and

-- measures to ensure that state investment expenditures are brought back in line with plan targets. 25X1

If these measures are effective, Budapest may come close to

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 [redacted] 25X1

meeting the goal of a $400-million current account surplus by the end of the year. The Hungarians project that hard currency exports will increase 3 percent this year, despite the disappointing performance in the first part of the year and an expected 4-percent weakening in the terms of trade. Moreover, Budapest is confident that a surge in hard currency imports in early 1984 was a short term reaction to the lifting of import restrictions, and that imports for the full year can be reduced 1 percent below the 1983 level. If so, projected improvements in trade and travel receipts should be enough to offset the higher than anticipated interest rates on outstanding debt. [redacted] 25X1 [redacted] Budapest is getting a good reception 25X1 to its bid for another $250 million loan, which should be signed before the end of the year. The consequent strengthening in Hungary's position might allow a further buildup of hard currency reserves, which had risen to $2.1 billion--roughly six months worth of hard currency imports--by the end of May. [redacted] 25X1

Reform During Adjustment

Unlike the other East European regimes, which do not appear to have serious plans for remedying their stagnant economies, Hungary looks to systemic economic reform as the path to revitalize growth and ensure external equilibrium over the long term. Despite the reform's rocky, stop-and-start history, the regime recognizes that in order to move the economy ahead it must come to grips with the problems of:

-- Too many large monopolistic enterprises protected by vested bureaucratic interests that block or weaken incentives to use resources efficiently;

-- Too many export products that are not competitive in hard currency markets;

-- Labor and capital that are in short supply but are misallocated to activities with small profits or even losses; and

-- Easy availability of bank credit and the lack of institutions to channel it to uses yielding the highest returns;

The pace and scope of economic reform during the adjustment period has been called into question, however, because of the tension between reform--with its attendant uncertainty and decentralization--and the needs of short-run balance of payments adjustment, which requires the central authorities to be able to mobilize all resources toward the goal of improving external performance. High-level party and government leaders have intensely--and publicly--debated whether economic stringencies require a more cautious or bolder approach to reform. The gradualists have emphasized the priority of improving the external payments position, even at the expense of temporary

[redacted] 25X1

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backsliding on reform. They argue that many of the proposals at the heart of reform--such as closing down inefficient factories--are too risky at a time of increased grumbling over austerity programs. In contrast, the reformist group in the leadership has pushed for more rapid change, conceding that it may be disruptive but claiming that it is the only way to solve the economy's serious problems. The most radical pro-reform economists have argued for immediate and drastic measures and have openly criticized the leadership for excessive caution. [redacted] 25X1

In 1980 and 1981, Hungary neither retreated from reform nor introduced any far reaching changes. It did take several measures to promote enterprise efficiency and modernize the outmoded product profile (see Annex). We believe that by the end of 1983, however, the pro-reform elements had won the debate. In April 1984, the Communist party central committee plenum endorsed in principle a comprehensive package of further reforms to be implemented gradually over the period 1985-1990. The specific measures to be implemented and their timetable are still being worked out. The regime began an intensive education campaign early in the year to prepare the population for sacrifices in terms of unemployment, inflation, and a general loss of economic security that the new measures will require. [redacted] 25X1

Outlook

Need For More Austerity and Reform

While Hungarian leaders may now be united in their commitment to reform, they remain divided on appropriate macroeconomic policy for the years immediately ahead. Some officials--such as Party secretary for economics Ferenc Havasi and State Secretary of the National Planning Office Janos Hoos--appear opposed to continued austerity beyond 1984. They argue that further cuts in investment would hurt modernization efforts and weaken export performance and that private consumption should not be cut to improve the foreign balance. Other officials--such as planning chairman Lajos Faluvegi--contend that external equilibrium must continue to have priority in 1985-1987 over economic growth. [redacted] 25X1

Hungary's demanding schedule of debt service payments supports the case for a prolonged period of domestic austerity if Budapest is to avoid renewed liquidity problems. Hungary faces a bunching of maturities on medium-and long-term debt for the next several years as projected repayment obligations (interest plus amortization) continue to rise through 1987 and remain at $2 billion annually through 1989 (see Table 11). These payments could increase considerably if international interest rates rise or if Hungary's financing requirements increase as a result of negative developments in foreign trade. Even under fairly optimistic assumptions, however, the debt service ratio will remain between 30 and 40 percent. [redacted] 25X1

[redacted] 25X1

The cuts in investment made so far, in our view, have not seriously damaged the growth potential of the economy and there may well be more room to trim. Like other East European countries, Hungary historically has built up a huge fixed capital stock that, despite its redundancies and outdatedness, is large enough to keep the economy going through this transition period. We estimate that in 1982 the Hungarians were operating at only about 82 percent of average industrial utilization rates for the previous five years, which suggests a substantial increase in output is possible without expanding existing capacity. 25X1

We believe that the regime must be careful, however, in fine-tuning its future austerity measures for consumers and workers. The leadership so far has been very attentive to monitoring the degree of confidence the populace holds in the system and the level of austerity it will tolerate. Despite their grumbling, Hungarian workers now show no sign of taking to the streets. Nevertheless, the strong feeling of some workers--particularly in heavy industry--that they have unfairly borne most of the sacrifices means that a serious miscalculation by the regime could lead to more widespread popular discontent--and possible unrest. 25X1

In the long run, in our view, only structural reform can free Hungary from economic stagnation and persistent balance of payments difficulties. Beginning in 1985 and continuing through the decade, Budapest plans gradually to implement further changes in the price and wage systems, introduce worker participation in enterprise management, decentralize domestic banking and credit operations, and revamp the personal income tax and turnover tax systems. If Budapest continues its practice of phasing in reforms slowly and retaining many safeguards, we believe that the new reforms may require at least five years before they have much impact on performance. Experience also shows that Budapest can quickly reverse the direction of its reform if pressured strongly enough by domestic or external opposition. For the time being, Budapest appears to have the go-ahead from the Soviet Union, but Moscow no doubt is watching to make sure that nothing too radical is undertaken, particularly in areas where economic decentralization could lead to a weakening of the role of the party. 25X1

Relations with East and West

Regardless of Budapest's skill in managing its problems, the Hungarian economy will remain extremely vulnerable to external shocks and will continue to depend on support from both East and West. Its ability to expand hard currency export earnings, for example, will rest to a large extent on the strength of Western recovery, trends in world prices for its export goods, and Moscow's willingness to pay hard currency for Budapest's agricultural exports. Its ability to stay afloat financially will depend not only on these factors, but also on maintaining

the confidence of Western banks, governments, and financial institutions. [redacted] 25X1

Moscow probably will continue to toughen its trade terms by demanding higher quality goods and balanced soft currency trade. In addition, to the extent that Budapest is able to restore economic growth and ease its hard currency burden--perhaps largely through Western credits or preferential treatment--Moscow will be tempted to demand additional deliveries to repay accumulated ruble debt and to reduce sharply its hard currency outlays for Hungarian goods by paying rubles instead of dollars. This could lead to significant declines in hard currency earnings that Budapest might not be quickly able to offset. If Moscow does move in this direction, it may do so slowly out of concern for the negative impact that a quick, across the board change would have on economic and political stability in Hungary. [redacted] 25X1

In order to gain increased access to foreign markets, technology, and credits, we expect that the Hungarians will continue to seek improved economic and political relations with Western governments. To help provide the environment for improved relations, the Hungarians, in our view, will continue to try to encourage dialogue and ease tensions between the superpowers by joining with other East European states to try to soften the Soviet line toward East-West issues and by opposing any turn inward by CEMA. They also will try to maintain an active schedule of meetings with Western leaders, as they have this year with the visits of Prime Ministers Thatcher and Craxi and Chancellor Kohl to Budapest, and Kadar's recent trip to Paris. [redacted] 25X1

The deterioration in East-West relations in recent years, however, is forcing Budapest to perform a delicate balancing act between its desire to improve relations with the West and its unwillingness to defy the Soviet Union. Primarily because of its geopolitical position as well as because of its fear of losing Moscow's economic subsidies and tolerance of its reform program, Budapest has fallen into line after Soviet pressure on such issues as the Olympic boycott and the aborted trip by East German leader Honecker to Bonn. It is likely to bow again to any strongly stated Soviet wishes. [redacted] 25X1

 [redacted] 25X1

Annex

Recent Reform Measures

Industrial Reorganization

In recent years the government has moved to decentralize and stimulate the economy by reducing vertical hierarchies in management and overcentralization in industry. Budapest also has legalized many activities in the private sector to encourage creativity and entrepreneurship. [redacted] 25X1

Ministry Changes. In January 1981, Budapest merged the Ministries of Heavy Industry, Light Industry, and Metallurgy and Machine Industry into a single, less powerful Ministry of Industry in order to break down bureaucratic links between ministry chiefs and their client industries and to give enterprises greater autonomy. A further merger of the Ministries of Foreign Trade, Domestic Trade, and Industry was reportedly being considered as of mid 1983. [redacted] 25X1
[redacted] the purpose of creating the "super-ministry" would be to 25X1
have the economy directed as far as possible by market forces and to remove the bureaucratic separation of production from consumption and foreign trade. [redacted] 25X1

Enterprise Decentralization. To promote competition and make industry more adaptable to changing world trade conditions, Budapest since 1980 has dismantled roughly 40 large enterprises and horizontally-structured trusts--primarily in the food and building materials industries--into over 300 independent small and medium-sized companies. In an interview following the July 1983 break-up of the giant Csepel Iron and Metal Works, a top Hungarian industry official said that each of the 13 successor firms will be required to do its own planning, rationalize resources and capacity, improve products, and develop markets. We expect enterprise decentralization along these lines to continue throughout the decade: a survey recently conducted by the Hungarian Academy of Sciences showed that profits and exports of the new organizations rose faster than in their branch in general. [redacted] 25X1

Expanded Private Sector. Beginning in 1982 the regime also has spurred the growth of the private sector by legitimizing a wide range of activities in the second economy in areas beyond agriculture and retail trade. One goal of the small enterprise program is to ease the burden for the population of the austerity program by providing an opportunity for supplementary income and by filling gaps left by the socialized sector in the supply of many consumer goods and services. Another objective is to enable the government to better monitor and tax the vast volume of economic activity that exists outside the mainstream of Hungarian life. Although most private entrepreneurs to date are providing only domestic (non-exportable) services and still operate on a fairly small scale, we believe that some of the more successful

[redacted] 25X1

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ventures could potentially become significant hard currency earners. [redacted] 25X1

[redacted] 25X1

Producer Price Reform

Since 1980 the price authorities have been experimenting with a new mechanism for determining wholesale prices in order to sensitize enterprises better to the true costs of inputs and to the world market value of their products. They have replaced the old method of determining industrial prices based on production costs with a system that links domestic prices to world markets via a complex network of exchange-rate conversions and various tax and subsidy adjustments. Beginning this year, Budapest is further refining the system--which many Hungarian economists believe is too complicated to be effective. A "club of elite enterprises" has been given unprecedented freedom to set their own prices, the only constraint being that their domestic prices cannot exceed the equivalent forint price of similar products imported for hard currency. Members of the club represent the star performers in manufacturing in that they must be major exporters operating at a profit whose products are subject to "adequate" competition in domestic markets. The government expects that 60 to 80 enterprises will convert to these new pricing procedures by the end of this year. If successful, the program will be gradually implemented throughout the economy. [redacted] 25X1

Wage Regulations Linked to Profitability

The Hungarians have likewise been experimenting with various programs to increase labor productivity and encourage labor mobility between enterprises. Measures introduced in 1983 and continued this year raise the relative cost of labor (by requiring enterprises to pay a higher social security contribution per worker) and offer tax breaks for personnel reduction. These provisions are expected to persuade managers to reduce redundant labor and to incorporate more efficient technology into the production process. The basic wage system also has been modified to encourage greater wage differentiation in industry and to reward employees who do outstanding work. [redacted] 25X1

[redacted] 25X1

 [redacted] 25X1

Hungary: Struggling with Economic Adjustment

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Table 1

Hungary: Selected Financial Indicators, 1971-1978

(Hard Currency in Millions US$)

	1971	1972	1973	1974	1975	1976	1977	1978
Trade Balance	-197	-2	174	-506	-416	-426	-619	-1183
Exports	912	1157	1754	2378	2305	2490	2891	3160
Imports	1109	1159	1580	2884	2721	2916	3510	4343
Current Account Balance	-215	-158	161	-535	-441	-239	-751	-1242
Gross Debt	1071	1392	1442	2129	3135	4049	5024	7290

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Table 2

Hungary: Domestic Economic Indicators

(Percent Change)

	1977	1978	1979	1980	1981	1982	1983
Western Accounting Concepts							
Real Gross National Product	6.3	2.4	0.3	1.0	-0.1	1.5	-0.5
Industrial Production	4.6	3.6	1.0	-1.3	-0.9	0.3	0.7
Agricultural & Forestry Production	13.0	-0.8	-2.8	6.0	-0.6	5.6	-2.7
Rest of the Economy[a]	4.1	3.4	1.3	0.3	0.8	0.3	-0.2
Socialist Accounting Concepts							
National Income Utilized							
Real Gross Fixed Investment[b]	13.0	4.9	1.0	-5.8	-5.1	-2.2	-3.3
Real Private Consumption	4.1	3.3	1.9	0.6	2.6	1.3	0.3
Real Disposable Income	5.6	3.6	-0.4	0.2	3.7	0.8	0.6
Nominal Wages in the Socialist Sector	7.8	7.8	7.0	7.4	6.5	6.3	4.5
Nominal Income in the Private Sector	na	na	na	na	na	15.8	26.8
Consumer Price Index	3.9	4.6	8.9	9.1	4.6	6.9	7.3

a Includes water management, construction, transport, communications, trade, housing, communal services, finance, government administration, health, education, welfare, scientific research and military personnel.

b Includes private sector investment

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Table 3

Hungary: Hard Currency Trade by Region

(Million US $)

	1978	1979	1980	1981	1982	1983
Total Hard Currency[a]						
Exports	3,160	4,255	4,924	4,890	4,997	5,015
Imports	4,343	4,627	5,025	4,973	4,536	4,478
Balance	-1,183	- 372	- 101	- 83	461	537
Developed West						
Exports	1,963	2,699	3,124	2,639	2,659	2,899
Imports	3,205	3,388	3,775	3,687	3,236	2,936
Balance	-1,242	- 689	- 651	-1,048	- 577	- 37
Socialist[b]						
Exports	679	894	1046	1,237	1,197	1,010
Imports	512	584	471	530	392	423
Balance	167	310	575	707	805	587
LDCs						
Exports	517	660	752	1012	1,139	1,106
Imports	626	655	779	756	908	1,119
Balance	- 109	5	- 27	256	231	- 13

a Totals may not add because of rounding.
b Includes Albania, Bulgaria, China, Cuba, Czechoslovakia, East Germany, Korea, Laos, Mongolia, Poland, Romania, USSR, Vietnam, and Yugoslavia.

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Table 4

Hungary: Value, Volume, and Price: Hard Currency Exports

(Percent change over previous year)

	1978	1979	1980	1981	1982	1983
Value	9	35	16	- 1	2	0
Energy Products	38	56	23	- 4	51	43
Raw Materials	8	46	14	- 12	- 7	6
Machinery and Equipment	15	39	7	8	25	- 15
Consumer Durables	15	20	11	- 6	- 12	- 2
Food Products	2	25	24	14	0	- 10
Volume	2	16	2	2	11	11
Energy Products	20	9	- 9	- 15	71	59
Raw Materials	- 1	15	1	- 5	0	15
Machinery and Equipment	5	27	- 2	11	30	- 10
Consumer Durables	5	9	- 2	- 3	- 6	7
Food Products	- 2	12	8	12	11	3
Price	8	16	13	- 2	- 8	- 9
Energy Products	15	43	35	13	- 12	- 9
Raw Materials	9	26	13	- 7	- 7	- 9
Machinery and Equipment	9	9	9	- 3	- 4	- 6
Consumer Durables	10	10	13	- 3	- 6	- 8
Food Products	4	11	14	2	- 10	- 12

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Table 5

Hungary: Hard Currency Trade

(Million US $)

	1978	1979	1980	1981	1982	1983
			Energy Products			
Exports	176	275	339	326	493	707
Imports	334	415	297	221	466	622
Balance	- 158	-140	42	105	27	85
			Non-Energy Products			
Exports	2984	3980	4585	4564	4504	4308
Imports	4009	4212	4728	4752	4070	3856
Balance	-1025	-232	-143	-188	434	452

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Table 6

Hungary: Hard Currency Trade by Commodity Group

(Million US $)

	1978	1979	1980	1981	1982	1983
Exports[a]	3,160	4,255	4,924	4,890	4,997	5,015
Energy Products	176	275	339	326	493	707
Raw Materials	1,127	1,640	1,863	1,643	1,528	1,614
Machinery and Equipment	369	513	550	593	744	632
Consumer Durables	571	684	758	714	625	615
Food and Agricultural Products	917	1,142	1,413	1,614	1,608	1,447
Imports[a]	4,343	4,627	5,025	4,973	4,536	4,478
Energy Products	334	415	297	221	466	622
Raw Materials	2,432	2,638	3,092	3,008	2,613	2,462
Machinery and Equipment	710	697	643	671	631	506
Consumer Durables	269	279	327	396	352	347
Food and Agricultural Products	598	598	667	676	474	541

[a] Totals may not add because of rounding.

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Table 7

Hungarian-Soviet Trade

(Million current US $)

	1976	1977	1978	1979	1980	1981	1982	1983[c]
Hard Currency Trade[a]								
Exports	279	289	243	410	554	685	651	498
Imports	174	191	220	244	132	153	75	60
Balance	105	98	23	166	422	532	576	438
Ruble Trade[b]								
Exports	1902	2386	2815	3185	3548	4061	4522	5033
Imports	2045	2487	3316	3926	4400	4493	4955	5281
Balance	-143	-101	-501	-741	-852	-432	-433	-248

a Assumed to equal 75 percent of Hungarian hard-currency exports to and imports from socialist countries other than China and Yugoslavia.
b Forints, converted into rubles, converted into dollars.
c Preliminary

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Table 8

Hungary: Value, Volume, and Price: Hard Currency Imports

(Percent change over previous year)

	1978	1979	1980	1981	1982	1983
Value	24	7	9	- 1	- 9	- 1
Energy Products	55	24	- 29	- 25	111	33
Raw Materials	24	9	17	- 3	- 13	- 6
Machinery and Equipment	42	- 2	- 8	4	- 6	- 20
Consumer Durables	45	4	17	21	- 11	- 1
Food Products	- 8	0	12	1	- 30	14
Volume	16	- 10	- 3	4	- 2	6
Energy Products	53	- 20	- 43	- 39	127	48
Raw Materials	15	- 11	4	3	- 8	2
Machinery and Equipment	30	- 11	- 16	8	- 2	- 13
Consumer Durables	32	- 5	6	27	- 7	7
Food Products	- 10	- 5	4	7	- 17	22
Price	7	18	12	- 4	- 7	- 7
Energy Products	1	56	25	22	- 7	- 9
Raw Materials	7	21	12	- 5	- 6	- 7
Machinery and Equipment	10	10	9	- 3	- 4	- 7
Consumer Durables	9	9	10	- 5	- 5	- 8
Food Products	2	6	8	- 5	- 15	- 6

Table 9

Hungary: Selected Financial Indicators

(Hard currency in million US$ unless otherwise indicated)

	1978	1979	1980	1981	1982	1983[a]
Gross Debt	7,290	8,140	9,090	8,699	7,715	8,257
Commercial	7,197	8,008	8,790	8,334	6,955	6,947
Government-backed	93	132	300	365	525	740
IMF/IBRD/BIS					235	570
Reserves[b]	2,136	2,230	2,558	2,033	1,300	1,951
Net Debt[c]	5,154	5,910	6,532	6,666	6,415	6,306
Debt Service Ratio[d] (Percent)	na	33.1	30.9	32.7	33.0	30.7
Trade Balance	-782	-167	276	445	766	877
Current Account Balance	-1,242	-826	-370	-727	-92	297
Change in Terms of Trade (Percent)	0.9	-1.2	1.4	2.2	-1.1	-2.4

a Preliminary estimate.
b Includes gold holdings valued at $126 per ounce in 1978 and $226 per ounce thereafter.
c Gross debt minus reserves.
d Repayments of medium-and long-term debt plus interest payments as a share of current account earnings.

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Table 10

Hungary: Financing Requirements and Sources 1980-1984

(Million US$)

	1980	1981	1982	1983[a]	1984[b]
Financing requirements	4,477	5,004	4,226	3,048	3,358
Current account balance	-370	-727	- 92	297	400
Trade balance	276	445	766	877	1,078
Exports	4,863	4,877	4,876	4,848	4,994
Imports	4,587	4,432	4,110	3,970	3,916
Net interest	-409	-1,100	- 976	- 662	- 671
Other net invisibles	-237	-72	118	82	- 7
Repayment of medium-and long-term debt	-811	-826	- 894	-1,216	-1,535
Repayment of short-term debt	-3,172	-3,347	-2,848	-1,764	-2,123
Net credits extended	-124	-104	- 192	- 65	- 100
BIS	0	0	- 200	- 300	0
Financing sources	4,624	4,816	4,310	3,100	3,402
Credits	4,952	4,291	3,577	3,751	3,276
Medium and long-term	1,605	1,443	1,068	1,276	1,226
Short-term	3,347	2,848	1,764	2,123	1,600
IMF, net	0	0	235	352	450
BIS	0	0	510	0	0
Change in reserves (minus=increase)[c]	- 328	525	733	- 651	126
Errors and omissions	-147	188	-84	- 52	- 44

[a] Preliminary.
[b] Projected.
[c] Includes changes in gold holdings.

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Table 1

Hungary: Selected Financial Indicators, 1971-1978

(Hard Currency in Millions US$)

	1971	1972	1973	1974	1975	1976	1977	1978
Trade Balance	-197	-2	174	-506	-416	-426	-619	-1183
Exports	912	1157	1754	2378	2305	2490	2891	3160
Imports	1109	1159	1580	2884	2721	2916	3510	4343
Current Account Balance	-215	-158	161	-535	-441	-239	-751	-1242
Gross Debt	1071	1392	1442	2129	3135	4049	5024	7290

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